



CUNA & Affiliates
A Member of the Credit Union System

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March 22, 2006

Ms. Mary F. Rupp
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Sixth EGRPRA Notice

Dear Ms. Rupp:

The Credit Union National Association (CUNA) appreciates the opportunity to respond to the National Credit Union Administration's sixth request for comments to identify outdated, unnecessary or burdensome regulatory requirements imposed on federally insured credit unions. NCUA and the other federal financial regulators are required by a 1996 paperwork reduction law (Economic Growth and Regulatory Paperwork Reduction Act or EGRPRA) to review their regulations at least once every 10 years.

The Act requires the regulators to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments and eliminate unnecessary regulations. The regulatory categories that are the subject of this latest request include the rules addressing net worth and prompt corrective action for natural person credit unions, secondary capital for low-income credit unions and corporate credit unions. By way of background, CUNA is the largest credit union trade association, representing 87% of our nation's 8,900 state and federal credit unions, which serve nearly 87 million members.

Summary of CUNA's Views

- CUNA continues to advocate and press for reform of prompt corrective action as a top priority. We urge NCUA to continue its work to achieve passage of PCA improvements. In the meantime, we encourage NCUA to review the list of sanctions under prompt corrective action for undercapitalized credit unions with greater than 4% net worth to determine if any of the discretionary supervisory actions could be eliminated or lessened, under appropriate circumstances.
- CUNA supports NCUA's RegFlex Program and recent changes to improve it. However, we still find the requirement that net worth of 7% be

maintained for six consecutive quarters to be inconsistent with regulatory flexibility.

- CUNA supports the agency's efforts to work with the corporate credit unions to develop a risk-based capital system that more closely reflects their operations.
- Consistent with the rule change NCUA adopted last month to allow low-income credit unions offering uninsured secondary capital accounts to redeem the funds in those accounts. CUNA encourages NCUA to review regulatory burdens on low-income credit unions, as we do for all credit unions, with an eye toward further regulatory relief, consistent with safety and soundness.

Net Worth and PCA Reform Remain A Top Priority

NCUA has developed a legislative proposal that calls for broad reform of the current net worth requirements for natural person credit unions and would result in a PCA framework that will more accurately set net worth requirements in relation to the relatively low level of risk associated with credit unions' operations.

CUNA strongly supports prompt corrective action reform as a top association priority and we continue to work to promote its adoption. We urge NCUA to continue its diligent work with the U.S. Department of the Treasury and Congress until statutory improvements in PCA have been achieved.

We also encourage NCUA to review the discretionary supervisory actions that the agency may apply to credit unions with net worth of less than 6% but more than 4%. While the agency has already limited the impact of such action for credit unions with less than 6% and more than 5% net worth, CUNA continues to question whether any discretionary sanctions should apply for credit unions that are only slightly under the adequately capitalized level. We also question whether undercapitalized credit unions that still have more than 4% net worth should be subject to all the discretionary supervisory actions listed in the PCA rule for such credit unions, such as the limits on CUSO transactions and the ability of the agency to limit or alter any activity of the credit union if the agency determines such action poses an excessive risk to the credit union. CUNA's Examination and Supervision Subcommittee would welcome the opportunity to assist the agency with this review.

RegFlex Requirements

Recently, the agency lowered the minimum net worth requirements for credit unions to be eligible for the RegFlex Program. This program is a positive initiative that CUNA has strongly endorsed from its inception and support the new, lower requirements for RegFlex. However, we urge NCUA to review the requirement that credit unions must maintain a 7% net worth level for six consecutive quarters

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to achieve RegFlex status as this approach seems inconsistent with the concept of regulatory leeway for well-operated credit unions.

Corporate Credit Unions

Corporate credit unions are working with NCUA to develop a comprehensive risk-based capital system for corporates using the principles of the BASEL Accords to tailor the system to the specific needs and activities of these institutions. CUNA strongly supports this effort.

Low-Income Credit Unions

Last month, the NCUA Board approved a final rule to allow low-income designated credit unions (LICUs) offering uninsured secondary capital accounts to redeem the funds in those accounts at the same rate they are discounted when they are within five years of maturity. Such credit unions are authorized to offer these accounts to non-natural person members and nonmembers. We supported this change and urge the agency to continue working with the National Federation of Community Development Credit Unions to help ensure community development credit unions are not subjected to unnecessary regulatory burdens in any aspects of their operations, consistent with safety and soundness.

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Thank you for the opportunity to comment on these important issues.

Sincerely,

Mary Mitchell Dunn
CUNA Senior Vice President and
Associate General Counsel